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# One short-selling financial firm says the Donlin Gold mine is too expensive to build

By **Krysti Shallenberger, Alaska's Energy Desk - Bethel** - June 17, 2020

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Donlin Gold has restarted its drilling program as the state slowly reopens amid the ongoing coronavirus pandemic. (Krysti Shallenberger/KYUK)

A recent report from a financial research firm says that the proposed Donlin Gold mine in the Yukon-Kuskokwim Delta will never be built. The mine could be one of the biggest gold producers in the world if completed, but the research firm says that it costs too much to actually build.

The firm, J Capital Research, can make a lot of money off of its report. One of the mining companies strongly disagrees with its conclusion.

J Capital Research analyst Tim Murray lives in Australia, and what he does is research companies to see if their stock is worth buying or selling. More specifically, they "focus on short research, that is we help companies to make money from stocks going down. So we try and identify companies that are overvalued and present them to the market," Murray said.

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The firm **acknowledges that they are biased** both in bold letters on the report, and on its website. J Capital Research and its clients stand to make a lot of money if Donlin's stock price declines. And after the firm released its report on Donlin on May 28, NovaGold, one of the companies that's developing the mine, has seen its stock steadily drop from \$10.10 a share to \$8.64 on June 10. NovaGold stock closed out at \$8.01 on June 16.

The report claims that NovaGold is overvalued because the Donlin Gold mine is actually too expensive to build. Murray claims that NovaGold executives are touting the mine to make

themselves richer. NovaGold's board of directors determines how much stock executives can receive as part of their financial compensation.

"They can make money whilst the market believes in it while [they] issue themselves shares and options. And then they can sell them at inflated prices because they keep pushing the mine. They become personally wealthy," Murray said.

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In response, NovaGold released its [own report on June 8](#). CEO Greg Lang says that the J Capital Research report is misleading.

"It's indicative of the power of misinformation when it spreads on the internet," Lang said. His company points out inaccuracies in a line by line analysis. For instance, one argument in J Capital's report is that employees selling shares indicates that the company is overvalued.

"They made a lot of statements about employees selling shares, my ownership, and so on, which are just simply erroneous. My ownership in NovaGold has steadily increased since I joined the company, and it will continue to do so," Lang said.

How the stock sales work is complicated. NovaGold Vice President of Corporate Communications Melanie Hennessy said in a email that stock options granted to executives have a five-year limit. That means the executive must sell off those shares in five years in what's called a stock option exercise, or forfeit them.

"Option exercises usually involve the sale of some shares, but the exercise does not result in a decrease of the number of shares held by a person before they exercised the option. In some cases, an exercise results in an increase in a person's shareholdings," Hennessy wrote.

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J Capital Research and NovaGold both say that there's no legal limit to how much stock a company executive can own. Murray said that NovaGold executives selling these shares now instead of waiting for the stock to rise even more when the mine is built shows that the executives themselves don't believe that will happen.

J Capital Research didn't stop at the financial inside-baseball. It also focused on the massive infrastructure that Donlin Gold has to build before it can start mining. The mining operations will require a lot of energy, so Donlin Gold has proposed building a 157-megawatt power plant fed by natural gas that will be transported through a 315-mile pipeline. That pipeline crosses mountains and will be built on permafrost. J Capital analysts argued that kind of terrain makes it unlikely that Donlin can build the pipeline, but Lang disagreed.

"We believe it. The pipeline is completely feasible as we've presented it. Just because some unknown expert says it can't be done, I think I would rather put my faith with the Alaska

contractors who know and understand Alaska. They've walked the pipeline. It's been well studied. You know, it's completely feasible," Lang said.

Donlin Gold hired Alaska engineering firm CH2M Hill to draft pipeline construction plans and eventually build it. Texas-based Jacobs Engineering Group bought [CH2M Hill in 2017](#), but the company is still involved with the Donlin Gold pipeline project.

The J Capital Research report cited growing costs in pipeline construction as another major hurdle facing Donlin's pipeline project. NovaGold and its partner Barrick Gold, the largest gold mining company in the world, need \$6.7 billion up front to build the mine, according to its 2011 feasibility study. The 2011 feasibility study has only been updated once, in 2012. Lang says that it costs tens of millions of dollars to update a feasibility study, and that for a long time, the market price for gold didn't justify updating it.

"NovaGold has always been very careful with our money. We have a strong treasury, and when us and Barrick think the time is right, we will move forward," Lang said.

Lang said the companies will start updating the study by the end of 2020, but he didn't specify what market conditions and gold prices are ideal for building the Donlin mine project. Right now, gold prices are around \$1,700 per ounce. That's considered a good price for gold.

KYUK reached out to three financial and research firms to weigh in on the J Capital Research firm report: Morgan Stanley, Wood Mackenzie, and S&P Global. Wood Mackenzie and S&P Global declined to comment; Morgan Stanley didn't respond.

Two years ago, KYUK [asked financial firm S&P Global](#) about the Donlin gold mine. Gold prices were hovering at \$1,400 an ounce. The firm said then that the gold market was pretty good, but the cost to build the Donlin Gold mine was the biggest hurdle. That's a common challenge facing Alaska infrastructure projects, because most of them cannot be reached by roads. Donlin Gold wants to build the mine in a remote part of Alaska, and the only way to get there is by a small plane.

NovaGold floated some ideas of [reducing the cost](#) in earnings calls, but nothing has been settled on yet. Barrick Gold released its 10-year plan to its investors earlier this year, but Donlin Gold did not appear.

In an earnings call in February, a [financial analyst asked Barrick Gold CEO Mark Bristow](#) about the Donlin Gold mine's absence from the plan. Bristow said that the mine would not be feasible at \$1,200 per ounce, which is the benchmark they used for planning.

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"We're not going to put Donlin in because we managed at \$1,200. We're not changing the rules in this; we're showing you that we've got visibility on the runway for a 10-year program and there might well be opportunities that we will highlight, but they would need to be opportunities that make it at \$1,200 gold price. So that's, the optionality is what it is and we'll leave it there," Bristow said according to the [transcript](#).

J Capital Research's Murray points to co-owner Barrick Gold for clues that the mine may never be built.

"They say it's not their plan to build it now. It's possible they could build it in the future, but my question is more when? I mean, they put out a 10-year plan and Donlin's not part of that," Murray said. "And they've said quite clearly that the current plan for the mine doesn't reach their criteria for development. So what has to change? And they haven't really said that."

But Lang says that Novagold and Barrick **still plan** on building the mine.

"Barrick, NovaGold are completely aligned on where we see this project," Lang said.

KYUK reached out to Barrick Gold for comment, but the company did not respond.

Meanwhile, NovaGold's stock fell even more the day they released their defense of the mining project.

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